

## MEMORANDUM

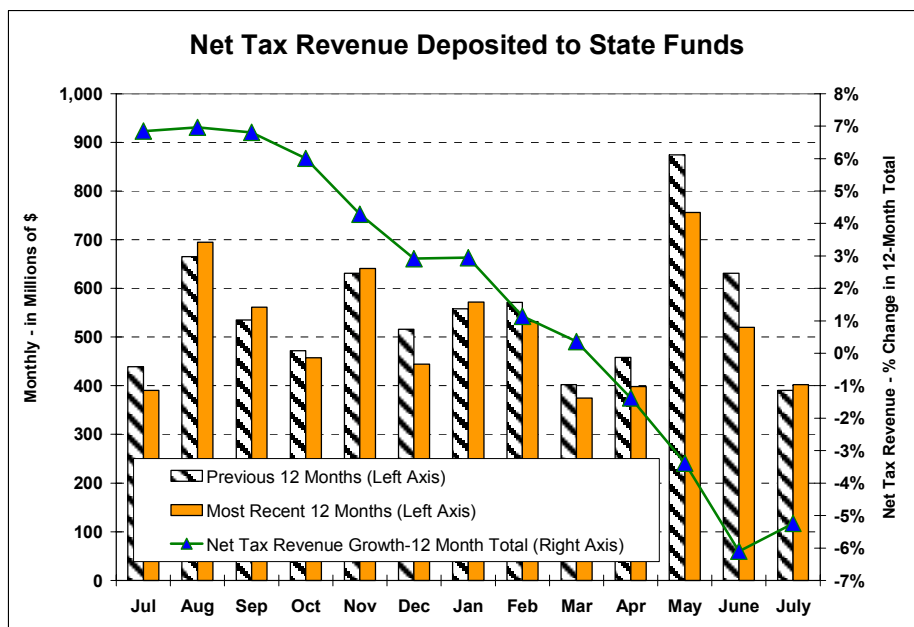
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson  
Shawn Snyder

DATE: August 20, 2009

### Twelve-month Total Net Tax Receipts Through July 31, 2009

The attached spreadsheet presents net State tax revenue deposited to State funds for the 12-month period ending July 2009 with comparisons to the previous 12 months. July 2008 to July 2009 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Month of July Comparison

July net tax receipts totaled \$402.5 million, an increase of \$12.0 million (3.1%) compared to July 2008. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$11.6 million, - 5.9%) – Gross income tax receipts decreased \$13.5 million in July. Modest withholding payment growth was more than offset by decreased payments with tax returns and quarterly estimate payments. Income tax refunds were \$1.9 million lower for the month. Monthly year-over-year negative net income tax growth is rare, with only twelve instances over the past 50 months. Eight of those instances occurred over the past ten months.
- Corporate Income Tax (negative \$2.4 million, - 21.1%) – Gross receipts decreased \$9.6 million and refunds decreased \$7.2 million.
- Sales/Use Tax (positive \$4.5 million, - 3.8%)
  - Road Use Tax Fund use tax and fees for new registrations increased \$0.5 million.
  - General Fund sales/use tax receipts increased \$40.5 million and refunds issued for the month increased \$36.5 million (net increase of \$4.0 million). The large increases in gross receipts and in refunds are related to legislation enacted in 2008 creating a statewide sales/use tax for school infrastructure coupled with the elimination of the local option sales tax for school infrastructure. This change boosts State sales/use tax receipts while increasing tax refunds by a similar amount, as the school infrastructure revenue is being removed from the State General Fund through a refund appropriation. July is the final month of significant increases in both gross receipts and tax refunds.
- Fuel Tax (positive \$29.8 million, 402.7%) – Gross fuel tax revenue increased \$30.4 million while refunds processed in the month increased \$0.7 million. The large increase was due to a calendar event in 2008 where the July 2008 monthly deposit occurred in June 2008. This reverses a large decrease shown in June data.
- Cigarette & Tobacco Taxes (negative \$3.0 million, - 12.2%) – Iowa banned smoking in most public indoor locations effective July 1, 2008. Also, a \$0.62 per pack federal tax increase, effective April 1, 2009, is providing additional downward pressure on sales. Monthly cigarette and tobacco tax deposits have decreased at least 6.4% in each of the past seven months.
- Gambling Taxes (negative \$1.4 million, - 7.1%) – Gambling tax revenue growth has now been negative for three consecutive months.

### **Year-over-Year Comparison – Net Tax Revenue**

During the 12-month period ending July 2009, net revenue from all taxes deposited to State funds totaled \$6.353 billion, a decrease of \$351.2 million (- 5.2%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (negative \$159.2 million, - 5.5%) – The rate of individual income tax receipt growth has decreased significantly since peaking in May 2008 at 11.8% year-over-year. The processing of tax year 2008 tax returns during the spring of 2009 accelerated the decrease. Withholding payments to the State increased \$57.3 million over the past 12 months. Of that increase, \$14.9 million was transfers of withholding from unemployment payments and \$8.7 million was transfers from State payroll and retirement funds, with only \$33.1 million in growth for the year from private sector and public sector employees not part of the State accounting system. Over the previous 12 months (ending July 2008), that amount was \$160.8 million.

- Corporate Tax (negative \$101.9 million, - 29.1%) – Net corporate income tax totaled \$248.7 million for the 12 months ending July 2009. The 12-month total peaked in July 2008 at \$371.9 million, so net corporate tax revenue is 33.1% below the latest peak. During and after the 2001 recession, net corporate tax receipts fell 68.8%, peak to trough.
- Sales/Use Tax (negative \$41.6 million, - 1.9%) – Net sales/use tax receipts have been down seven of the past eight months compared to the same month the previous year and the annual percent growth has fallen from positive 4.1% to negative 1.9% over that time.
- Fuel Tax (negative \$0.1 million, - 0.0%) – Net motor fuel tax revenue has been weak the past twelve months, likely the result of decreased economic activity caused by the recession. According to Department of Revenue fuel sales reports, over the most recent 12-month period Iowa taxable gasoline/ethanol gallons sold decreased 0.3% while taxable diesel sales were down 7.9%, the ninth consecutive month showing a decline in annual taxable diesel sales.
- Gambling Tax (negative \$6.4 million, - 2.1%) – Despite a new Waterloo casino and recent expansions of casinos in Clinton and Dubuque, three changes providing boosts to year-over-year gambling growth, gambling tax revenue is modestly negative year-over-year. According to Racing and Gaming Commission statistics, nine of Iowa's seventeen casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending July 2009. The AGR growth for all facilities was negative 0.6% over the past 12 months. Excluding the three new or expanded facilities, growth was negative 3.6%.
- Cigarette and Tobacco Tax (negative \$19.9 million, - 7.8%) – The second anniversary of the tax increase has passed and the tax increase no longer impacts the year-over-year growth calculation. Iowa's indoor smoking ban and a recent increase in the federal cigarette tax are potential contributors to the tax revenue decline.
- Insurance Premium Tax (negative \$25.1 million, - 22.3%) – The lack of growth in insurance premium tax revenue may be the result of expanded use of tax credits, including credits earned through an insurance company's own activities as well as credits purchased from others.

### **Tax Spotlight – Motor Vehicle Fuel Tax**

Motor vehicle fuel is taxed under Chapter 452A, Code of Iowa. The tax is imposed on each gallon of fuel sold in Iowa for use in motor vehicles or aircraft. Tax rates for July 1, 2009, through June 30, 2010 are:

- Gasoline - \$0.210 per gallon
- Ethanol Blended Gasoline - \$0.19 per gallon
- E-85 - \$0.19 per gallon
- Aviation Gasoline - \$0.08 per gallon
- Diesel Fuel - \$0.225 per gallon
- Liquefied Petroleum Gas (LPG) - \$0.20 per gallon
- Aviation Jet Fuel - \$0.03 per gallon
- Compressed Natural Gas - \$0.16 per 100 cubic feet

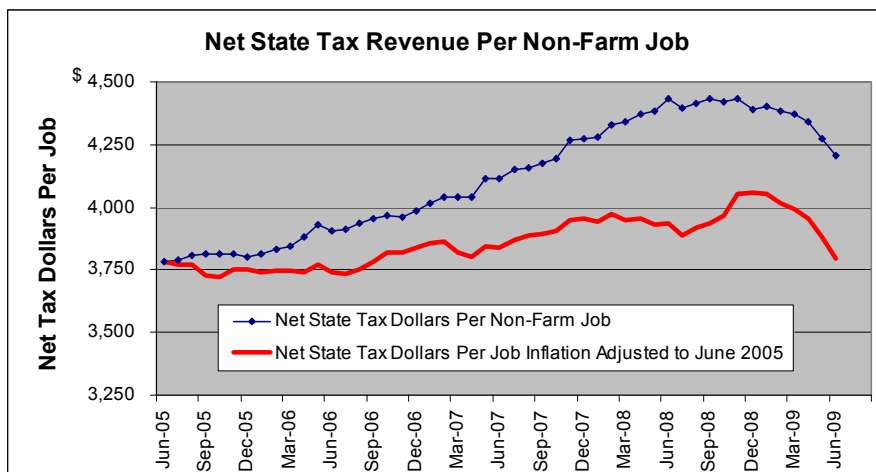
Tax rates for gasoline and ethanol-blended gasoline (including E-85) are adjusted each fiscal year by the Department of Revenue and are based on the previous calendar year's ethanol-blended gasoline sales. Sellers of motor vehicle fuel must be licensed by the Department of Revenue.

The Iowa motor fuel tax was imposed in 1925 in SF 312 (Gasoline License Fee Act) at a rate of \$0.02 per gallon. The tax rates for gasoline and diesel fuel have increased periodically since enactment. In 1989, the tax rate on diesel fuel was increased to its present rate of \$0.225 per gallon and the tax rate on gasoline was increased to \$0.20 per gallon. During the 2001 Legislative Session, HF 716 (Ethanol-Blended Gasoline and Related Taxes Act) established a motor vehicle fuel tax schedule. The Department of Revenue establishes the per-gallon tax rate on gasoline and ethanol-blended gasoline based on the tax schedule. The market-share of ethanol-blended gasoline during a calendar year determines the tax rate on gasoline and ethanol-blended gasoline for the following fiscal year. The tax rate per gallon could range from \$0.19 to \$0.20 on ethanol-blended gasoline and \$0.20 to \$0.21 on gasoline. The use of the tax schedule was to end after FY 2007; however the 2007 General Assembly extended the use of the tax schedule through FY 2012 in SF 601 (Standing Appropriations Act). Starting in FY 2013, the tax rate on gasoline and ethanol blended gasoline will be \$0.20 per gallon.

Motor vehicle fuel tax returns are filed by the licensee and are due by the last day of the month following the month when the fuel was withdrawn from its terminal. Aviation fuel tax receipts are credited to the State Aviation Fund (Chapter 452A.82, Code of Iowa). Starting in FY 2008, tax receipts from the sale of gasoline used in water craft are deposited in the Marine Fuel Tax Fund (Chapter 452A.84, Code of Iowa). The remainder of the motor fuel tax revenue is credited to the Road Use Tax Fund.

## Tax Revenue and Employment

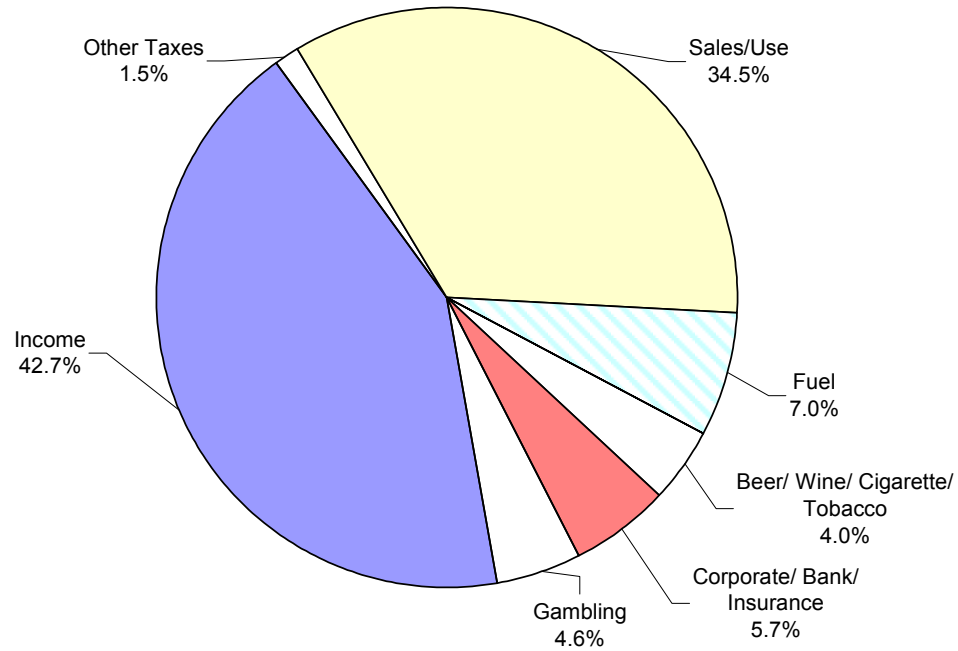
The average reading for Iowa non-farm employment over the 12 months ending June 2009 is 1,506,800, and net State tax receipts over the same 12 months totaled \$6.341 billion, or \$4,208 per non-farm job. This is \$424 (11.2%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 10.9%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 0.1% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



## Net State Tax Revenue - Twelve Months Ending July 2009

**Net Revenue = \$6.353 Billion**

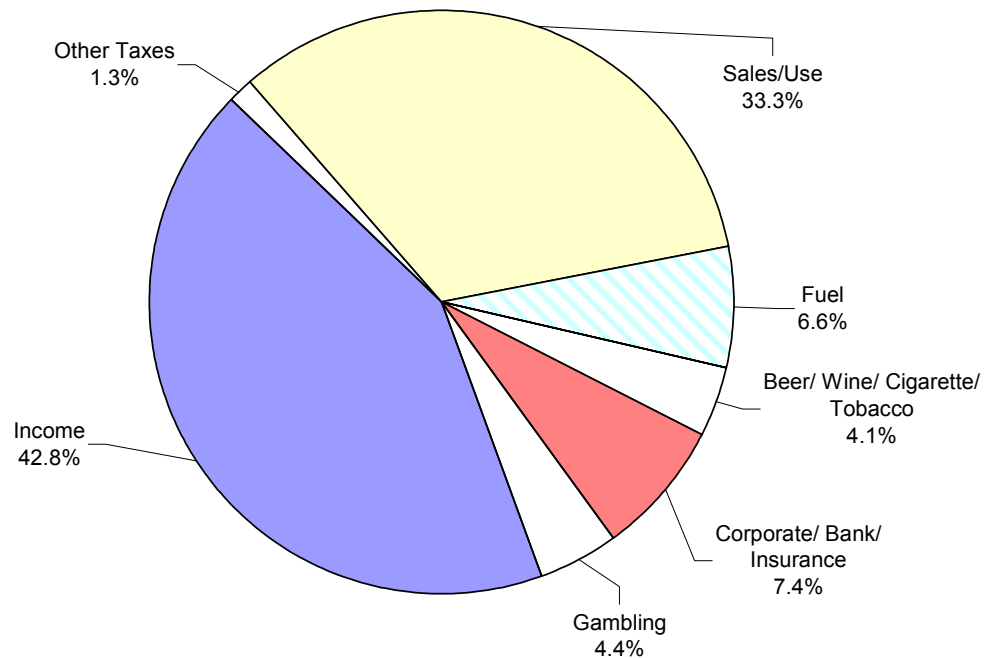
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending July 2008

**Net Revenue = \$6.704 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

<b>Net Tax by Tax Type</b>	<b>Previous 12-Month Period Total</b>	<b>Most Recent 12-Month Period Total</b>	<b>12-Month \$ Change</b>	<b>12-Month % Change</b>	<b>Month of July 2008</b>	<b>Month of July 2009</b>	<b>July \$ Change</b>	<b>July % Change</b>
Banking	\$ 33.5	\$ 28.1	\$ - 5.4	-16.1%	\$ 2.0	\$ 1.3	\$ - 0.7	-35.0%
Beer & Wine	20.7	21.0	0.3	1.4%	1.9	1.9	0.0	0.0%
Cigarette & Tobacco	255.0	235.1	- 19.9	-7.8%	24.6	21.6	- 3.0	-12.2%
Corporate Income	350.6	248.7	- 101.9	-29.1%	11.4	9.0	- 2.4	-21.1%
Fuel	442.5	442.4	- 0.1	0.0%	7.4	37.2	29.8	402.7%
Gambling	298.3	291.9	- 6.4	-2.1%	19.7	18.3	- 1.4	-7.1%
Individual Income	2,870.3	2,711.1	- 159.2	-5.5%	196.4	184.8	- 11.6	-5.9%
Inheritance	76.7	73.6	- 3.1	-4.0%	6.2	6.1	- 0.1	-1.6%
Insurance	112.5	87.4	- 25.1	-22.3%	1.9	0.9	- 1.0	-52.6%
Other Taxes	- 6.8	7.0	13.8	--	0.4	- 1.5	- 1.9	-475.0%
Real Estate Transfer	17.1	14.6	- 2.5	-14.6%	1.6	1.4	- 0.2	-12.5%
Sales/Use	2,234.1	2,192.5	- 41.6	-1.9%	117.0	121.5	4.5	3.8%
<b>Total Net Taxes</b>	<b>\$ 6,704.5</b>	<b>\$ 6,353.4</b>	<b>\$ - 351.1</b>	<b>-5.2%</b>	<b>\$ 390.5</b>	<b>\$ 402.5</b>	<b>\$ 12.0</b>	<b>3.1%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 7,430.8	\$ 7,618.4	\$ 187.6	2.5%	\$ 422.7	\$ 463.2	\$ 40.5	9.6%
Tax Refunds	\$ - 726.3	\$ - 1,265.0	\$ - 538.7	74.2%	\$ - 32.2	\$ - 60.7	\$ - 28.5	88.5%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,740.0	\$ 5,401.6	\$ - 338.4	-5.9%	\$ 350.7	\$ 333.4	\$ - 17.3	-4.9%
Road Use Tax Fund	\$ 703.5	\$ 702.0	\$ - 1.5	-0.2%	\$ 30.8	\$ 61.0	\$ 30.2	98.1%
Non-GF Gambling	\$ 236.4	\$ 231.1	\$ - 5.3	-2.2%	\$ 7.8	\$ 7.5	\$ - 0.3	-3.8%
Other State Funds	\$ 24.6	\$ 18.7	\$ - 5.9	-24.0%	\$ 1.2	\$ 0.6	\$ - 0.6	-50.0%
<b>Local Option Taxes *</b>	<b>\$ 724.4</b>	<b>\$ 797.3</b>	<b>\$ 72.9</b>	<b>10.1%</b>	<b>\$ 65.7</b>	<b>\$ 64.9</b>	<b>\$ - 0.8</b>	<b>-1.2%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** Taxes on banks are deposited to the State General Fund. State credit union tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

**Corporate Income Tax:** All corporate tax is deposited to the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** The first \$60.0 million of gambling tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited to the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited to the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited to a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changes beginning FY 2010, when the State General Fund percentage begins a decline to 65.0% by FY 2015.

**Sales/Use Tax:** General sales/use tax is deposited to the State General Fund, while most vehicle use tax is deposited to the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax was converted to a fee structure. To allow continuity of data, revenue from the fee structure is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted as part of the net sales/use tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Starting FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

## Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.